

PERAC AUDIT REPORT



Malden Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



TABLE OF CONTENTS

Letter from the Executive Director	I
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	8
Statement of Changes in Fund Balances	9
Statement of Receipts.....	10
Statement of Disbursements.....	11
Investment Income	12
Schedule of Allocation of Investments Owned.....	13
Supplementary Investment Regulations	14
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	16
Note 2 - Significant Accounting Policies	23
Note 3 - Supplementary Membership Regulations.....	24
Note 4 - Administration of the System	26
Note 5 - Actuarial Valuation and Assumptions.....	27
Note 6 - Membership Exhibit.....	28

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

August 31, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Malden Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Annual Statement:

Based upon inspection of the Annual Statements filed by the Board for the three-year audit period, it was determined that certain line item amounts contained in the Annual Statement, Investment Income page, did not match the detailed supporting schedules. Variances were found in realized and unrealized gains and losses. Summary of Investments Owned, Supporting Schedule #6, contains variances when compared to the Investment Income Page of the 2003, 2004 and 2005 Annual Statement. The Annual Statement does balance to the general ledger. In addition, the Excess Investment Income reported on the Investment Income page did not agree with the Excess Investment Income reported on the receipts page, in both 2003 and 2004.

Recommendation: As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the system's financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if needed, and reconciled to the general ledger prior to submission of the Annual Statement.

Board Response:

The above problem can be easily fixed and will be with this current 2006 annual statement. It should be noted that the annual statement has been done this way for 9 years. Each year the annual statement is done and handed in to PERAC. They are supposed to be checked by the PERAC audit staff each year, and the board is to be notified if there are problems. This board was not notified of any problems for any of these years, and there were no findings on this issue for the previous 2 audits covering periods 1997-1999 and 2000-2002.

2. Reconciliation of Cash Accounts:

A review of the bank reconciliations prepared by the City Treasurer disclosed the following:

- Bank of America checking account for the period ending December 31, 2005 revealed thirty-one checks outstanding for more than six months. These outstanding checks totaled \$17,932.13.
- A separate Bank of America checking account for the period ending December 31, 2005 revealed an additional thirty-one checks outstanding for more than six months. These outstanding checks totaled \$99,258.93.
- We observed that differences between the bank balance, the book balance used in the reconciliation and the general ledger were not adjusted on a monthly basis.

Recommendation: A more complete list of unpaid checks and similar reconciling items should be compiled and included with the monthly bank reconciliation. The check number, the date issued, the payee and the amount of the check are basic details that should be provided to the retirement board. Checks outstanding for more than six months should be researched so that proper voiding and updating of these items can be completed. Journal entries initiated for adjustments required

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

should be made to the general ledger on a timely basis. A journal entry to adjust the general ledger balance to agree with the adjusted bank balance should be made as a function of every month's bank reconciliation. This will eliminate adjustments consisting of unexplained variances that carryover from month to month in consecutive reconciliations.

Board Response:

The above accounts have both been closed, and journal entries performed to bring on the new accounts. All outstanding checks are being reviewed, as always, and the new accounts balanced.

3. Expenses:

During a review of the expenses of the system, it was observed that:

- Late fees and finance charges were incurred for a vendor. This indicates inadequate evaluation of invoices and statements of activity. Retirement funds should not be used for deficiencies in reconciliation procedures.
- Payment was authorized twice for the same invoices. The second voucher was supported by copies of the original invoices that had been paid previously. This indicates inadequate matching of invoices with payments made. Payment authorized from invoice copies is a poor policy and should be a caution that the original invoices were handled in a less than efficient manner.
- The PERAC chart of accounts was expanded in 2000 to include separate expense categories for Fiduciary Insurance (#5310) and Service Contracts (#5311). It was noted that the Malden Retirement System failed to separately categorize and report summary activity in these two categories during the audit period. Disbursements made were included in the total reported as Administrative Expenses (#5589). Additionally, reimbursement made to the City of Malden for payroll costs associated with accommodating the travel schedule of a board member are reasonably connected with the travel expense category (#5719).

Recommendation: The Administrator should more formally document the expense procedures of the retirement system. They should be specific for any agreement handling the billing requirements for a particular vendor. All vendors need to conform to the statutory requirements of the system that requires a majority of Board members to approve all invoices. Payment should be authorized exclusively from original invoices. The Board must comply with PERAC prescribed accounting categories for reporting its activities on an annual basis. All costs associated with these separate accounts should be collected there and reported in summary form as required by PERAC.

Board Response:

A new invoicing procedure has been worked out with Pitney Bowes. Pitney Bowes now sends their invoices the 1st week of the month, which allows them to be approved and paid before 30 days goes by.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

4. Member Deductions:

A. The auditor sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The payroll officers calculate an annual salary for regular earnings over \$30,000 and deduct the additional 2% based on the number of pay-periods per year and deduct an equal amount per pay period, regardless of the actual earnings for that pay-period. This method leaves significant chance for error when additional regular earnings are paid and manual intervention is required to adjust the withholding. This was a finding in the last PERAC Audit Report covering 1/1/99 to 12/31/02.

B. Members of the Malden Retirement System that are known to be dual members enrolled in another retirement system covered by G.L. c 32, and known to be earning regular income over \$30,000 must have the additional 2% deducted from their total income over \$30,000.

Recommendation:

A. According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay on any given pay-period exceeds an annual rate of \$30,000 are subject to the additional 2% withholding. The Board must instruct payroll officials to deduct the additional 2% every pay-period that earnings exceed an annualized rate of \$30,000. The city is in the process of soliciting bids for an updated payroll system; the Board should be actively providing direction to the City's Information Technology Department during this process to ensure the payroll system complies with the statute and PERAC directives listed above.

B. The Board should review dual members to ensure proper retirement deductions are being withheld.

Board Response:

- A.** The auditor did not sample member deductions this audit, with the exception of 9 employees from the MHA authority, which were all perfect. The auditor asked for reports from both the Retirement Director and the Treasurer to determine if the member deductions were done correctly. When the auditor was given the reports, he determined that the reports would not adequately give him the information needed to check the member deductions accurately. The Retirement Director was informed that, because of this development, the auditor would just carry forward the finding used in the last audit. It should be noted that the payroll clerks calculate the 2% deduction in a way that will cause them the least confusion, and keep this calculation as accurate as possible with the fewest errors. The philosophy difference we have with PERAC on the way we calculate 2% deductions remains a constant, as PERAC would have us charging 2% deductions on employees who do not earn over \$30,000.00 annually.
- B.** This situation has been corrected.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

5. Purchase of Prior Service

A member was granted a request to purchase prior service by Board vote on June 22, 2005, however no vote was recorded to approve a repayment schedule. The total amount due was \$10,622.08 to purchase 5 years and 4 months of prior service. The Director provided a memo dated June 22, 2005, from the Director to the member, stating the Board approved on June 15, 2005 a payment schedule of \$5,000 due 6/30/05, \$2,811.05 due 12/31/06, and \$2,811.05 due 12/31/07. The records indicate no board meeting was held on June 15, 2005. The total amount was calculated using interest rates in effect prior to being changed as of July 1, 2005 to one half of the assumed investment rate of return. This arrangement seems to circumvent the intent of the statute, which implies a continuous payroll deduction commencing prior to July 1, 2005.

Recommendation: As the member did not enroll in a continuous buy back arrangement prior to July 1, 2005 the Board should recalculate the purchase amount due from the member based on one half the assumed rate of return of investment income.

Board Response:

A board vote was taken on June 22, 2005 to allow the member to purchase prior service back, and that, if needed, a payment schedule to be agreed upon would be worked out. A payment schedule depicting amounts to be paid each year on a continuous basis over 3 years beginning with 2005 was agreed upon with the member. The board reviewed the payment schedule with board attorney Michael Sacco, who indicated that payments should be made on a continuous yearly basis. Nowhere in the statute do they depict continuous basis to mean deductions should be paid on a monthly, weekly, or hourly basis, just a continuous basis. Once a year clearly is.

Administrative Note:

As to Audit Finding # 5 we wish to state that, during the field audit, it appeared that the documentation presented by staff relative to a continuous payment plan appeared confusing. However, upon further discussions with the Retirement Director, it appears that the member in question did in fact begin a bonafide payment schedule prior to the interest rate change as adopted by the Legislature. Consequently, we consider this matter resolved.

6. Refunds of Member Deductions

Audit procedures included a sample of payments refunded to members as requested by formal application. These are done to confirm that the correct amount is being refunded, that the interest portion accrued on contributions withheld is being correctly applied, and that proper withholding is done for federal tax purposes. The department head is not completing Section B of the Application for Withdrawal, therefore, there is no confirmation as to whether the member resigned voluntarily or was terminated involuntarily. This data is critical when determining the amount of interest to be refunded.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The Board must ensure that the department head completes Section B and properly indicates whether the termination was voluntary or involuntary.

Board Response:

The separation date form which our board uses carries more information than the PERAC form, and is more informative. The PERAC withdrawal form has been redone three times since its inception, and makes things difficult when it keeps changing. Why, when this board has been using these forms for 10 years, does this come up only in this audit? Why wasn't this a problem in the last audit?

7. Retirees:

The auditor sampled selected retirees files to determine if the superannuation benefit was correctly calculated and that the payroll matches the monthly allowance. An inspection of retiree files provided no documentation that the exact age of the beneficiary was verified for retirees who selected the Option C Superannuation.

Recommendation: The specific age of the Option C beneficiary is critical to the calculation of the retirement benefit. The Board should confirm the age of the beneficiary by inspecting a birth certificate or other substantiation of the actual date of birth. A copy of this record should be maintained in the file.

Board Response:

The board does check every Option C beneficiary's date of birth during the retirement exit interview, by checking either a license or birth certificate. Once again, why is this just a finding now? The previous audits conducted since audits began with this board never ever mentioned this as a finding.

8. Review of Board Minutes

A. A review of Board member attendance indicated that one member missed 33% of the Board meetings in 2004.

B. The fifth member of the Board was elected by the other four members, to a term that expired on December 4, 2005. The other members voted on March 15, 2006 to re-elect the fifth member for a new 3-year term expiring December 4, 2008. There were several Board meetings held between 12/4/05 and 3/15/06 where this individual was present and voting.

C. The terms of four of the Board members expire within five days in 2008. This is contrary to the statute that dictates the administration of the system.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation:

A. Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility to advise members who fail to uphold their duties to the System, and to take appropriate action with such members, when necessary. The Board might consider adjusting its meeting schedule to accommodate the requirements of its Board members.

B. The Board must take action to ensure that all Board members are elected or duly appointed before being allowed to participate in or cast votes for the benefit of members.

C. According to G.L. c. 32, § 20(4)(b), the term of the third and fourth member shall be so arranged as not to expire in the year of expiration of the term of the fifth member.

Board Response:

A. The board member has been made aware of this finding and has taken steps to insure acceptable attendance.

B. In review of city ordinances, it should be noted that section 2.3 states, "Unless otherwise provided by law, any appointed officer may be removed by the appointing authority. Any vacancy in appointed office may be filled for the unexpired term if any". It is clear that any member of the Retirement Board whose term has expired remains in that position until the successor is chosen and qualified.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2005	2004	2003
Net Assets Available For Benefits:			
Cash	\$3,519,084	\$3,499,663	\$3,884,307
Short Term Investments	0	0	0
Fixed Income Securities	36,581,127	38,358,741	42,662,545
Equities	94,754,846	81,110,053	70,929,267
Interest Due and Accrued	451,564	455,865	519,500
Accounts Receivable	3,838,683	3,723,800	3,569,416
Accounts Payable	(480,434)	(96,764)	(682,458)
Total	<u>\$138,664,870</u>	<u>\$127,051,357</u>	<u>\$120,882,576</u>
Fund Balances:			
Annuity Savings Fund	\$29,476,078	\$27,099,453	\$25,651,083
Annuity Reserve Fund	12,086,336	12,762,886	12,919,500
Pension Fund	8,183,578	10,423,629	13,329,780
Military Service Fund	6,279	3,077	7,490
Expense Fund	0	0	0
Pension Reserve Fund	88,912,599	76,762,311	68,974,724
Total	<u>\$138,664,870</u>	<u>\$127,051,357</u>	<u>\$120,882,576</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$25,405,715	\$11,675,449	\$15,390,868	\$3,258	\$0	\$55,179,845	\$107,655,135
Receipts	3,104,264	356,679	7,821,948	7,015	632,884	13,803,527	25,726,316
Inter Fund Transfers	(2,464,997)	2,473,646	0	0	0	(8,649)	0
Disbursements	<u>(393,898)</u>	<u>(1,586,274)</u>	<u>(9,883,036)</u>	<u>(2,784)</u>	<u>(632,884)</u>	<u>0</u>	<u>(12,498,875)</u>
Ending Balance (2003)	25,651,083	12,919,500	13,329,780	7,490	0	68,974,724	120,882,576
Receipts	2,938,161	364,378	7,783,674	45	639,884	7,791,761	19,517,903
Inter Fund Transfers	(1,084,511)	1,088,685	0	0	0	(4,174)	0
Disbursements	<u>(405,279)</u>	<u>(1,609,676)</u>	<u>(10,689,825)</u>	<u>(4,458)</u>	<u>(639,884)</u>	<u>0</u>	<u>(13,349,122)</u>
Ending Balance (2004)	27,099,453	12,762,886	10,423,629	3,077	0	76,762,311	127,051,357
Receipts	3,281,496	367,643	8,509,426	3,228	678,774	12,150,288	24,990,855
Inter Fund Transfers	(691,119)	691,119	0	0	0	0	0
Disbursements	<u>(213,752)</u>	<u>(1,735,312)</u>	<u>(10,749,478)</u>	<u>(27)</u>	<u>(678,774)</u>	<u>0</u>	<u>(13,377,342)</u>
Ending Balance (2005)	<u>\$29,476,078</u>	<u>\$12,086,336</u>	<u>\$8,183,578</u>	<u>\$6,279</u>	<u>\$0</u>	<u>\$88,912,599</u>	<u>\$138,664,870</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$2,862,019	\$2,673,127	\$2,560,476
Transfers from Other Systems	193,502	80,042	238,591
Member Make Up Payments and Re-deposits	66,062	35,315	66,406
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>159,913</u>	<u>149,677</u>	<u>238,791</u>
Sub Total	<u>3,281,496</u>	<u>2,938,161</u>	<u>3,104,264</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>367,643</u>	<u>364,378</u>	<u>356,679</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	167,505	108,777	67,917
Received from Commonwealth for COLA and Survivor Benefits	774,474	323,345	615,396
Pension Fund Appropriation	<u>7,567,448</u>	<u>7,351,552</u>	<u>7,138,636</u>
Sub Total	<u>8,509,426</u>	<u>7,783,674</u>	<u>7,821,948</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	3,210	0	7,010
Investment Income Credited to the Military Service Fund	<u>18</u>	<u>45</u>	<u>5</u>
Sub Total	<u>3,228</u>	<u>45</u>	<u>7,015</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>678,774</u>	<u>639,884</u>	<u>632,884</u>
Sub Total	<u>678,774</u>	<u>639,884</u>	<u>632,884</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,700	31,357	18,964
Miscellaneous Income	0	0	0
Excess Investment Income	<u>12,148,588</u>	<u>7,760,404</u>	<u>13,784,563</u>
Sub Total	<u>12,150,288</u>	<u>7,791,761</u>	<u>13,803,527</u>
Total Receipts	<u>\$24,990,855</u>	<u>\$19,517,903</u>	<u>\$25,726,316</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$155,905	\$202,848	\$262,954
Transfers to Other Systems	<u>57,847</u>	<u>202,431</u>	<u>130,944</u>
Sub Total	<u>213,752</u>	<u>405,279</u>	<u>393,898</u>
Annuity Reserve Fund:			
Annuities Paid	1,563,920	1,557,950	1,442,874
Option B Refunds	<u>171,392</u>	<u>51,726</u>	<u>143,400</u>
Sub Total	<u>1,735,312</u>	<u>1,609,676</u>	<u>1,586,274</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,674,170	6,611,381	6,104,002
Survivorship Payments	608,978	648,346	501,388
Ordinary Disability Payments	122,139	159,592	169,468
Accidental Disability Payments	2,050,015	2,024,377	1,833,789
Accidental Death Payments	446,229	389,246	418,113
Section 101 Benefits	71,437	63,853	55,702
3 (8) (c) Reimbursements to Other Systems	221,152	205,135	175,926
State Reimbursable COLA's Paid	523,478	556,014	592,768
Chapter 389 Beneficiary Increase Paid	<u>31,880</u>	<u>31,880</u>	<u>31,880</u>
Sub Total	<u>10,749,478</u>	<u>10,689,825</u>	<u>9,883,036</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>27</u>	<u>4,458</u>	<u>2,784</u>
Expense Fund:			
Board Member Stipend	23,000	21,083	22,000
Salaries	130,742	126,144	131,108
Legal Expenses	8,932	10,843	11,632
Medical Expenses	0	0	0
Travel Expenses	9,572	6,763	7,349
Administrative Expenses	21,514	19,419	29,089
Furniture and Equipment	0	2,085	8,012
Management Fees	438,068	408,882	380,167
Custodial Fees	29,199	28,831	28,897
Consultant Fees	0	0	0
Service Contracts	10,603	8,631	9,992
Fiduciary Insurance	7,145	7,203	4,636
Sub Total	<u>678,774</u>	<u>639,884</u>	<u>632,884</u>
Total Disbursements	<u>\$13,377,342</u>	<u>\$13,349,122</u>	<u>\$12,498,875</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$94,331	\$46,580	\$35,663
Short Term Investments	0	0	0
Fixed Income	2,474,311	2,702,044	4,291,987
Equities	1,864,049	1,804,491	957,775
Pooled or Mutual Funds	0	0	0
Commission Recapture	0	0	0
Total Investment Income	<u>4,432,691</u>	<u>4,553,115</u>	<u>5,285,426</u>
Plus:			
Realized Gains	43,752	503,788	1,821,874
Unrealized Gains	15,643,930	9,002,754	11,428,275
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>451,564</u>	<u>455,865</u>	<u>519,500</u>
Sub Total	<u>16,139,246</u>	<u>9,962,407</u>	<u>13,769,649</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(530,852)	(622,047)	(1,278,444)
Realized Loss	(3,066,271)	(2,494,483)	(1,072,111)
Unrealized Loss	(3,164,014)	(1,965,104)	(932,947)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(455,865)</u>	<u>(519,500)</u>	<u>(758,651)</u>
Sub Total	<u>(7,217,002)</u>	<u>(5,601,134)</u>	<u>(4,042,153)</u>
Net Investment Income	<u>13,354,935</u>	<u>8,914,388</u>	<u>15,012,921</u>
Income Required:			
Annuity Savings Fund	159,913	149,677	238,791
Annuity Reserve Fund	367,643	364,378	356,679
Military Service Fund	18	45	5
Expense Fund	<u>678,774</u>	<u>639,884</u>	<u>632,884</u>
Total Income Required	<u>1,206,347</u>	<u>1,153,984</u>	<u>1,228,358</u>
Net Investment Income	<u>13,354,935</u>	<u>8,914,388</u>	<u>15,012,921</u>
Less: Total Income Required	<u>1,206,347</u>	<u>1,153,984</u>	<u>1,228,358</u>
Excess Income To The Pension Reserve Fund	<u>\$12,148,588</u>	<u>\$7,760,404</u>	<u>\$13,784,563</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Short Term	\$3,519,084	2.61%	100%
Fixed Income	0	0.00%	100%
Equities	36,581,127	27.13%	35-80%
Pooled Short Term Funds	<u>94,754,846</u>	<u>70.26%</u>	65%
Grand Total	<u>\$134,855,057</u>	<u>100.00%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Malden Retirement System was 11.35%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Malden Retirement System averaged 3.79%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Malden Retirement System was 11.00%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Malden Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 4, 1987

20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

December 31, 1987

20.04(6) American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments.

March 29, 1990

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

December 12, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

February 21, 1992

4.03 (1) Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to PERAC, a photocopy of the following for the month:

- (a) cash book entries;
- (b) trial balance; and
- (c) journal entries.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 10, 1998

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond-rating services. However, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating B or equivalent as rated by one or more recognized bond-rating services.

20.06(4) Fixed income holdings that are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year. However, 10% of the market value of fixed income investments may be invested in bonds with a quality rating of B or equivalent as rated by one or more recognized bond-rating services.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Malden Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Malden Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 11, 1995

MEMBERSHIP:

City - Redevelopment - Housing employees shall become members of system when hired as directed by Chapter 32, section 3.

MEMBERSHIP:

Part-time employees meeting qualifications of Chapter 32 and rules of retirement board as follows: 20 hours per week, 39 weeks per year.

MEMBERSHIP:

Employees of temporary nature found to be ineligible for membership in system upon becoming permanent employee shall have privilege of purchasing past service, so allowed by board.

SUPERANNUATION RETIREMENT:

Applicant after meeting all qualifications of Chapter 32, section 5 must complete proper forms, setting date - options and etc., all forms must be witnessed and be signed by spouse. Form showing his rights and benefits must be witnessed for signature of applicant.

ORDINARY DISABILITY:

Applicant shall present a letter stating disability and treatment from his attending physician before receiving application for ordinary disability. Qualifications required by Chapter 32, section 6 must be met by applicant and proper form signed and witnessed, in accordance with P.E.R.A. regulations.

ACCIDENTAL DISABILITY:

Applicant shall present a letter stating disability and treatment from his attending physician before receiving application for accidental disability. Applicant shall sign release for all Departmental, Doctor and Hospital medical records. Applicant shall become available for examinations by a doctor for evaluation examinations if desired by retirement board. Upon meeting fully all qualifications as required by Chapter 32, section 7, applicant must sign proper form having same witnessed, in accordance with P.E.R.A. regulations.

REFUNDS:

Members desiring refunds of deductions upon leaving employment, after making proper application approved by the board, must pick up check in person, and sign proper form upon receipt of check.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

TWO APPLICATIONS:

Board ruling that only one accidental disability application be allowed before the board at one time. Until final determination is made on an existing application for disability, a second application shall not be acted upon for one year from date of first application or until such time as first application is adjudicated.

November 25, 1987

For those employees hired after January 1, 1988, prior service for part-time employment, Prior Service Credit Allowance, shall not credit any hours less than twenty hours per calendar week.

October 17, 1989

Employees paid for services from Federal Community Development Grants, and members of the Malden Contributory Retirement System seeking to buy back service credit paid from Community Development Grants, shall not receive approval for creditable service for this service until funding for said service is received from Community Development funds received by the City of Malden. This action was taken in accordance with the provisions of Chapter 66I, Acts of 1983, Section 24”.

July 17, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Controller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Domenic Fermano

Appointed Member: Joanne Croken Term Expires: 11/30/08

Elected Member: Warren Atkinson, Jr. Term Expires: 11/30/08

Elected Member: Douglas Eisnor Term Expires: 11/30/08

Appointed Member: Ronald Hogan Term Expires: 12/04/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary Liability
Ex-officio Member:)	\$1,000,000 Fidelity (ERISA) Bond
Elected Member:)	Issued through MACRS by
Appointed Member:)	Amity Insurance Agency, Inc.
Staff Employee:)	Coverage afforded by various insurers

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2006..

The actuarial liability for active members was	\$90,850,041
The actuarial liability for vested terminated members was	1,248,004
The actuarial liability for non-vested terminated members was	224,550
The actuarial liability for retired members was	<u>102,226,305</u>
The total actuarial liability was	194,548,900
System assets as of that date were (actuarial value)	<u>138,779,587</u>
The unfunded actuarial liability was	<u>\$55,769,313</u>
The ratio of system's assets to total actuarial liability was	71.3%
As of that date the total covered employee payroll was	\$33,767,081

The normal cost for employees on that date was 8.12% of payroll

The normal cost for the employer was 6.83% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: Varies within range of 4.75% to 8.00%
depending on Group assigned and service.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$138,779,587	\$194,548,900	\$55,769,313	71.3%	\$33,767,081	165.2%
1/1/2004	\$135,257,841	\$178,198,164	\$42,940,323	75.9%	\$30,591,994	140.4%
1/1/2002	\$124,259,098	\$158,811,838	\$34,552,740	78.2%	\$29,708,257	116.3%
1/1/2000	\$104,762,557	\$138,939,842	\$34,177,285	75.4%	\$27,496,991	124.3%
1/1/1998	\$69,966,024	\$124,151,027	\$54,185,003	56.4%	\$24,056,000	225.2%
1/1/1996	\$55,405,048	\$102,382,237	\$46,977,189	54.1%	\$21,744,154	216.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	17	32	19	29	8	17	53	38	13	11
Ordinary Disability	0	0	0	1	1	2	0	0	0	0
Accidental Disability	2	2	0	2	2	5	0	7	9	1
Total Retirements	19	34	19	32	11	24	53	45	22	12
Total Retirees, Beneficiaries and Survivors	613	622	649	661	642	622	660	712	770	701
Total Active Members	859	834	841	891	949	903	838	857	888	918
Pension Payments										
Superannuation	\$3,375,343	\$4,095,879	\$4,148,925	\$4,307,808	\$4,464,735	\$4,564,087	\$4,952,734	\$6,104,002	\$6,611,381	\$6,674,170
Survivor/Beneficiary Payments	261,624	313,062	297,851	381,832	377,943	397,547	453,273	501,388	648,346	608,978
Ordinary Disability	129,940	118,616	116,767	125,795	129,267	213,400	159,978	169,468	159,592	122,139
Accidental Disability	1,336,344	1,533,565	1,447,204	1,508,300	1,540,714	1,623,464	1,704,864	1,833,789	2,024,377	2,050,015
Other	<u>1,363,343</u>	<u>1,356,643</u>	<u>1,353,445</u>	<u>1,307,486</u>	<u>1,342,446</u>	<u>1,266,441</u>	<u>1,205,281</u>	<u>1,274,389</u>	<u>1,246,128</u>	<u>1,294,176</u>
Total Payments for Year	<u>\$6,466,594</u>	<u>\$7,417,765</u>	<u>\$7,364,192</u>	<u>\$7,631,221</u>	<u>\$7,855,105</u>	<u>\$8,064,939</u>	<u>\$8,476,130</u>	<u>\$9,883,036</u>	<u>\$10,689,825</u>	<u>\$10,749,478</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac